BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of Developing a Unified Intercarrier Compensation Regime	CC Docket No. 01-92

REPLY COMMENTS OF ALASKA COMMUNICATIONS SYSTEMS GROUP

I. Introduction.

Alaska Communications Systems Group, Inc. ("ACS") hereby files reply comments in response to initial comments in this proceeding. A number of parties filing initial comments support proposals that depend on shifting recovery of local network costs from charges that carriers now pay for using local networks to higher charges paid by end users, including higher Subscriber Line Charges ("SLC") and retail rates. They also depend on shifting extremely high levels of cost to the Universal Service Fund ("USF" or "Fund").

In analyzing these comments, the FCC should consider whether redirecting substantial cost recovery in these ways will afford a sustainable means for local companies to recover network costs, particularly over the longer term. Certainly, higher SLCs or retail rates will push customers toward less expensive wireless, Voice over Internet Protocol ("VoIP"), or e-mail alternatives and may even cause some customers to drop off the network altogether. As a result, local companies will not have sufficient revenue to support the continuing operation of the network. Overloading the USF may not offer a practical solution either. Since Congress has already expressed concern over the existing size of the Fund, driving it over $8 billion through one FCC decision will surprise and concern Members.

ACS urges the FCC to consider the economic and political implications of parties' proposals in determining what level and form of cost shifts will be sustainable over the longer term. For example, the FCC should consider whether it is reasonable to adopt policies that incent and encourage customers to leave the local service network and what entity will build and support this infrastructure if it takes such action. In the end, all parties using local networks should continue to contribute at a reasonable level to the costs of local networks to ensure the infrastructure supporting universal service remains viable.

II. Background.

A number of commenting parties supported proposals that required local companies to shift recovery of their local network costs to end users through increased SLCs or higher retail local exchange rates, or, more generally, to the existing or a remodeled USF. While in many cases, the parties did not quantify the impact of the proposals, in others, the magnitude of proposed increases was clear.

For example, General Communication, Inc. ("GCI") and the Intercarrier Compensation Forum ("ICF") supported the ICF proposal to shift recovery of costs collected through per-minute termination rates to recovery through a higher residential SLC (from $6.50 to $10 in areas served by non-rural carriers and $9 in areas served by rural carriers) and two new USF mechanisms.[1] The ICF estimated that its proposal would increase the USF by about $2.7

[1] *See* Comments of General Communication, Inc., *In the Matter of Developing a Unified Intercarrier Compensation Regime,* CC Docket No. 01-92 (May 23, 2005) at 1; *see also* Comments of the Intercarrier Compensation Forum, *In the Matter of Developing a Unified Intercarrier Compensation Regime,* CC Docket No. 01-92 (May 23, 2005) ("ICF Comments") at 28, 34.

billion.[2] This amount would increase the combined non-E-rate programs by 61%[3] and be equivalent to an increase in the High Cost Support program of nearly 80%.[4]

Western Wireless Corporation and SunCom Wireless, Inc. commented in support of the Independent Wireless Carriers' proposal to shift costs to other recovery mechanisms including a SLC increased up to $10.00, a new USF mechanism that would be unified with the current system, and rate rebalancing.[5] Several other carriers supported the Expanded Portland Group (EPG) proposal to shift costs to an Access Restructure Charge and other mechanisms, including an additional Optional Variable Federal SLC not subject to the current $6.50 cap.[6] EPG estimated that a total shortfall of approximately $900 million would be recovered under its new uncapped SLC.[7] The Home Telephone Company and PBT Telecommunications (collectively "HTC/PBT") jointly proposed that costs be recovered, in part, from a new High Cost Connection Fund, resulting in a consolidated USF of about $7.9 billion.[8]

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[2] *See* ICF Comments at 34, Appendix B-14. Specifically, ICF proposes to add approximately $2 billion of new cost recovery to the USF in addition to increasing the current high cost mechanism by $300 million, the current low income mechanism by $249 million, and would require additional funding of $150 million, for a total USF increase of $2.744 billion. *See id.* at Appendix B-14.

[3] The non-E-rate mechanisms (high cost, low income, and rural healthcare programs) of the USF totaled $4.4 billion in 2004. The ICF proposes to create new USF mechanisms totaling $2.7 billion, for an increase of approximately 61%. *See* ICF Comments at 34; *see also* 2005 Trends at 19-5.

[4] The High Cost Support portion of the USF totaled approximately $3.5 billion in 2004. Adding the ICF's proposed new $2.7 billion USF mechanisms to the USF would be equivalent to an 80% increase in the High Cost Support mechanism. *See id; see also* "Trends in Telephone Service," Industry Analysis and Technology Division, Wireline Competition Bureau (April 2005) ("2005 Trends") at 19-5.

[5] *See* Comments of Western Wireless Corporation and SunCom Wireless, Inc., *In the Matter of Developing a Unified Intercarrier Compensation Regime,* CC Docket No. 01-92 (May 23, 2005) at 26-27; *see also* Western Wireless Corporation Ex Parte, *In the Matter of Developing a Unified Intercarrier Compensation Regime,* CC Docket No. 01-92 (Feb. 3, 2004), Exhibit at 14; ICF Comments at 28.

[6] *See* Comments of the Montana Independent Telecommunications Systems (MITS), the Montana Telecommunications Association (MTA) and Mid-Rivers Telephone Cooperative, *In the Matter of Developing a Unified Intercarrier Compensation Regime,* CC Docket No. 01-92 (May 23, 2005) at 21-26.

[7] *See* Expanded Portland Group Ex Parte: EPG Capacity Based Access Plan, *In the Matter of Developing a Unified Intercarrier Compensation Regime,* CC Docket No. 01-92 (May 11, 2004) at 15.

[8] HTC/PBT estimates that its new mechanism will total $4.25 billion, which includes approximately $2 billion in access-related charges currently covered by the USF. HTC/PBT's proposal would, therefore, increase the overall USF by approximately $2.25 billion net, for a total USF of $7.9 billion. *See* Home Telephone Company and PBT Telecom Ex Parte Presentation, *In the Matter of Developing a Unified Intercarrier Compensation Regime,* CC Docket No. 01-92 (Nov. 2, 2004) at 21-22 ("HTC/PBT Proposal"); *see also* 2005 Trends at 19-5.

III. Argument.

A. Shifting Substantial Local Network Cost to End Users May Force Customers to Alternative Services.

If the FCC shifts additional local network costs to end users through higher SLCs or local retail rates, it will likely force customers toward alternative services. Certainly, as the SLC grows from $6.50 to $10 or more and local retail rates climb as well, wireline customers may determine that wireless or VoIP services provide equivalent local service at a lower overall cost. This option will be particularly compelling for multi-line business customers. Substitute services may be less expensive, however, because they do not bear the full economic cost of the local network they use to carry traffic. If providers do not pay the real cost of using the local network, and instead continue to "ride it" for free or at a substantial discount, there may be few left to pay for the underlying infrastructure, over time.

Additionally, increasing the SLC and retail rates may force customers to drop off the wireline network altogether. Some customers have a small income, but do not qualify for Lifeline support. Adding $3.50 or more in SLC increases each month on top of retail rate increases may push some customers' total local bill to an unaffordable level. Local carriers will also lose these customers' revenue that supports the local network.

Proposals to shift significant levels of network costs to the USF may add even greater pressure for customers to switch services. Between 2000 and 2003, the USF's outlays increased by 32%, while its revenue base fell by 5%.[9] From 2003 to 2004, the FCC estimates that the USF revenue base decreased by another 5.5% while its outlays remained static.[10] Trends such as

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[9] *See* "Financing Universal Telephone Service," Congressional Budget Office (2005) at ii.
[10] *See* 2005 Trends at 19-5, 6; "Trends in Telephone Service," Industry Analysis and Technology Division, Wireline Competition Bureau (May 2004) at 19-5, 6.

these have caused surcharges to increase dramatically.[11] Shifting substantial additional costs to the USF will increase the contribution factor further, adding even greater pressure for customers to switch from services subject to the surcharge.[12]

B. Congress Will Have Little Appetite for Increasing the Non-E-Rate Portion of the Fund by Over 60%.

Over the last several years, government policymakers have expressed alarm over the size of the Fund. Indeed, the Fund has grown from $3.7 billion in 1999 to $5.7 billion in 2004.[13] To support this growth, the contribution factor has increased from less than 4% in 1999 to 11.1% in the second quarter of 2005.[14] Shifting another $3 billion to the Fund will certainly draw the attention of legislators.

Even at Fund levels in 2002, Senators who were key supporters of USF programs adamantly opposed increasing the size of the Fund. For example, Senator Ted Stevens (R. Ak.) stated at a June 2002 Senate Commerce Committee hearing on the future of universal service:

> I'm told that [the USF surcharge] could go as high as 15% on the current – on each bill at the rate we're going right now. Fifteen percent. There's no state that taxes that high. It wasn't intended to be a tax and I don't see any way that it can survive if it goes beyond 15%. As a matter of fact, I don't see it surviving going up to 15%.[15]

More recently, in 2003, at a House Commerce Committee hearing on the USF, Representatives expressed similar warnings: Representative Barbara Cubin (R. Wyo.) stated that Congress should carefully examine the USF since:

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[11] *See* "Financing Universal Telephone Service" at 10.
[12] While the FCC may mitigate this problem somewhat by changing the contribution mechanism, the surcharge may still add significantly to the level of the customer's total bill, depending on how it is charged.
[13] *See* "Financing Universal Telephone Service" at viii.
[14] *See id.* at 10; *see also* Proposed Second Quarter 2005 Universal Service Contribution Factor, *In the Matter of the Federal-State Joint Board on Universal Service*, CC Docket No. 96-45 (Mar. 10, 2005).
[15] *The Future of Universal Service: Ensuring the Sufficiency and Stability of the Fund, Before the Senate Comm. on Commerce, Science, and Transportation, Subcomm. on Communications,* 107th Congress (June 19, 2002) (statement of Sen. Ted Stevens).

> …spiraling contribution rates are not the sign of a balanced program. And no consumer wants to open his or her phone bill and see a regularly ballooning USF contribution.[16]

Chairman Tauzin (R. La.) likened the USF to the fiscally-unsound Social Security program:

> The amount of money available…is diminishing while the demand grows for money…It's sort of like Social Security. I mean, when we started out with Social Security, there were 15 people working for every person collecting…we're down to about two, two and a half people…it's becoming a stressed system.[17]

At the end of the hearing, Rep. Pickering (R. Miss.) observed that the panel had reached a consensus that the USF was not sustainable and served "no one as well as it should."[18]

House Energy and Commerce Committee Chairman Joe Barton (R. Tex.) has been a vocal critic of the enlarged USF, and particularly the highly-funded E-rate program.[19] As Barton and his Committee work on draft legislation, he appears to be considering seriously cutting back the Fund and the current level of support provided under existing mechanisms.[20]

Certain proposals will push the Fund well over $8 billion[21] and increase the non-E-rate portion of the Fund by as much as 61%.[22] Such startling increases will certainly elicit reactions from telecommunications policymakers, as well as from Members whose states are net "payors"

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[16] *The Future of Universal Service, Before the House Comm. on Energy and Commerce, Subcomm. on Telecommunications and the Internet,* 108th Cong. 108-49 (2003) (prepared statement of Hon. Barbara Cubin, Member, House Committee on Energy and Commerce, Subcommittee on Telecommunications and the Internet).

[17] *The Future of Universal Service, Before the House Comm. on Energy and Commerce, Subcomm. on Telecommunications and the Internet,* 108th Cong. 108-49 (2003) (statement of Hon. W.J. "Billy" Tauzin, Chairman, House Committee on Energy and Commerce).

[18] *The Future of Universal Service, Before the House Comm. on Energy and Commerce, Subcomm. on Telecommunications and the Internet,* 108th Cong. 108-49 (2003) (statement of Hon. Charles W. "Chip" Pickering, Member, House Committee on Energy and Commerce, Subcommittee on Telecommunications and the Internet).

[19] *See, e.g., Telecom A.M.: Barton's Priorities: First DTV, Then Fix Universal Service* (Feb. 3, 2005); *Communications Daily: USF Reform in Congress* (April 25, 2005).

[20] *See, e.g. Congressional Quarterly: Barton Primed for Effort to Overhaul Telecom Act* (June 6, 2005) (interview with Hon. Joe Barton, Chairman, House Committee on Energy and Commerce); *Communications Daily: Comm. Daily Notebook* (March 17, 2005).

[21] For example, the ICF proposal would increase the total Fund to $8.4 billion, while the HTC/PBT proposal would increase it to $7.9 billion. *See* ICF Comments at 34; HTC/PBT Proposal at 21-22; 2005 Trends at 19-5.

[22] The non-E-rate USF mechanisms totaled approximately $4.4 billion in 2004. The ICF proposes to create new USF mechanisms totaling $2.7 billion, for an increase of approximately 61%. *See* ICF Comments at 34; *see also* 2005 Trends at 19-5.

into the program. Shifting such costs to the USF is unrealistic, in light of the magnitude of the increase required.

IV. Conclusion.

For these reasons, the FCC should consider the economic and political implications of proposals that shift substantial levels of local network costs to end users and the USF. All carriers that use the local network should fairly share the cost of operating, maintaining, and upgrading facilities that transport their traffic. The FCC should adopt a plan that affords a reliable and predictable means of recovering local network infrastructure costs that support universal service.

Dated this 20th day of July, 2005.

Alaska Communications Systems Group, Inc.

By: ./s/ Leonard Steinberg
Leonard Steinberg
Vice-President, General Counsel and Corporate Secretary

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